

Published June/July 2009 by:

businessinwales.co.uk



JOHN CULLEN

Insolvency practitioner, Harris Lipman

Cash is king, part 2

SOME time ago, I prepared an article about cash management in tough times and the benefits proper management has to your business. However, the businesses with cash reserves right now may be about to forge themselves a tremendously strong future.

I was lucky enough to review an article by Scott Reynolds Nelson, a history teacher at the College of William & Mary in the United States of America.

He makes a compelling argument about the similarities between our current recession and the Great Depression of 1873. New financial institutions were lending more than ever in Europe and the value of land was ever-increasing.

America, possibly playing the role that China is today, was the new super power and the Europeans were facing competition as they had not seen before.

Confidence fell in Europe and the world felt the repercussions for years to come.

It was not doom and gloom for everyone. In the States, Carnegie, Rockefeller and McCormick went from strength to strength. Their organisations had guaranteed contracts and plenty of cash. They were able to buy up less financially stable competitors at knock-down prices.

Some business leaders today are reporting similar opportunities. Those with cash are reaping some rewards.

Of course, for every winner, someone else may be losing out.

At a business event a few weeks ago, not every business leader was pessimistic about the financial situation. Some reported acquisitions that significantly strengthened their enterprises.

The UK's gross domestic product shrunk by 1.9% in the first three months of 2009, with the manufacturing sector providing a significant driving force behind the contraction. This is the largest contraction the UK has seen since the Second World War. I am not one for gauging the contraction for the next three quarters but the estimates appear to start with the Chancellor's figure of 3.5% being at the lower end of the range.

House prices in Wales dropped more than 5% during the quarter to the end of December 2008, although there has been some positive reporting recently.

Some will see all of this as an opportunity and we may see a new age of strong companies emerge from this episode. Time will tell.